

“THE CENTER’S PRIVATIZATION SURVEY HAS HELPED PUBLIC SCHOOL OFFICIALS MAKE DATA-DRIVEN DECISIONS THAT HAVE SAVED DISTRICTS — AND TAXPAYERS — MILLIONS OF DOLLARS.”

Tom Watkins, former Michigan Superintendent of Public Education

JAMES M. HOHMAN AND DUSTIN D. ANDERSON

A MACKINAC CENTER REPORT



MICHIGAN SCHOOL PRIVATIZATION

SURVEY 2010



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140 West Main Street P.O. Box 568 Midland, Michigan 48640

989-631-0900 Fax 989-631-0964 www.mackinac.org mcpp@mackinac.org

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140 West Main Street P.O. Box 568 Midland, Michigan 48640

989-631-0900 Fax 989-631-0964 www.mackinac.org mcpp@mackinac.org

The Mackinac Center for Public Policy

Michigan School Privatization Survey 2010

By James M. Hohman and Dustin D. Anderson

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Introduction

Privatization of support services has been a method that Michigan school districts have used for several years to lower costs. More than ever before, Michigan school districts are privatizing the three main support services they offer — food, custodial and transportation. Our annual survey finds that 48.8 percent of Michigan school districts are contracting out for these services. This is an 8 percent increase over 2009.

The largest impetus for contracting is cost savings. The survey found that first-year contracts alone are expected to save districts \$16.7 million cumulatively.

The Mackinac Center has surveyed Michigan public school districts about their use of private contracts since 2001 and annually since 2005. More and more each year, districts contract out to save money. They also consistently report satisfaction with the contracts they have in place.

New to the 2010 survey is a question on shared services. House Bill 6488 has been introduced that would establish a shared services commission to study district consolidation and allow the state superintendent to force consolidation. But there had not been a comprehensive list of the services that districts are currently sharing and the advantages of those arrangements. The 2010 survey found that a majority of districts share at least one service, with frequent sharing among business, transportation, technology and food services.

The survey is a centralized source for data regarding the growth, cost savings and satisfaction of Michigan school districts use of private contractors. The survey has documented the steady trend towards privatization of school support services.

Methodology

The privatization survey was conducted between May 14 and Sept.3, 2010. The majority of survey responses were administered via telephone. Those responding to the survey were superintendents, business managers, assistant superintendents, administrative directors and administrative assistants. Districts requesting that the survey be provided in written form or administered through a Freedom of Information Act request were sent letters requesting the information. All 551 public school districts in Michigan responded to this year's survey.

The districts provided answers to a series of questions on their service providers. If a district began contracting out or brought a service back in-house, they were asked follow-up questions, including the reasons for changing and expected savings.

These districts were asked to provide documentation on cost differences. Unfortunately, not all districts provided comprehensive documentation, nor was the method of documenting these costs uniform across districts. Where applicable, figures were annualized and estimated for the first year of service provision. The districts' published figures may not be directly comparable to each other, but a cost accounting analysis of district savings figures is beyond the scope of this survey.

Whether the district was new to contracting or had been contracting for several years, the district was asked whether they were satisfied with the services the private company has provided.

It is common for districts to only contract out part of its services, whether through attrition as workers leave the job or whether for the management of the service. Districts contracting out with private vendors to provide normal services are included as having privatized services in this survey, even if the majority of the service is provided by in-house staff. However, districts contracting out special services support with private contractors, such as for the cleaning of administrative buildings or for special education busing, are not counted.

Our definition of privatization also includes districts that contract out with employee leasing agencies.

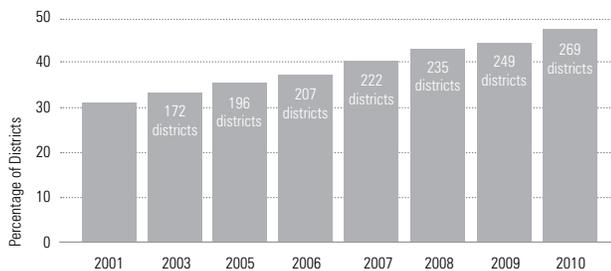
Many districts contract with another district, their intermediate district, municipal government or some other governmental agency. These districts are not counted in the numbers because they are not contracting to private companies.

2010 Survey Results

- 48.8 percent of districts (269 out of 551) contract out for food, custodial or transportation services.
- 57 new food, custodial or transportation services were outsourced this year.
- Eight districts brought services back in-house this year.
- New contracts alone were estimated to save taxpayers \$16.7 million statewide.

Privatization continues to increase this year as 269 districts contracted out for food, custodial or transportation services. Contracting has increased 57.5 percent since 2001 and displays a steady trend, growing an average of 5.2 percent each year.

Graphic 1: Outsourcing by Michigan School Districts



Note: The number of districts that responded each year varied.

Fifty districts began new support service contracts. These were evenly split between districts that already contracted out a service and districts that are new to support service contracting.

One district, Bentley Community Schools, contracted out for all three services since the 2009 survey. It is using an employee leasing firm to employ its substitute bus drivers and to replace any of its current drivers who end their service with the district. It also began using an employee leasing firm to provide custodians and selected a private food service manager.

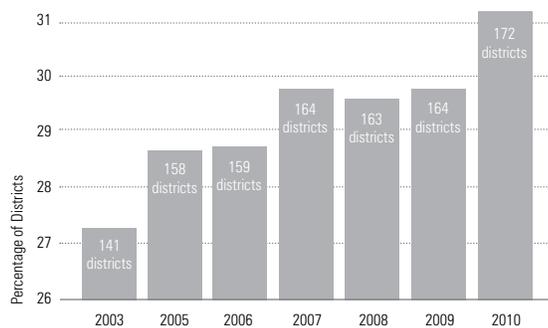
Districts reported that the new contracts are expected to save \$16.7 million, though not all districts were able to provide quality figures and were thus excluded from savings calculations. Details on expected savings from contracting out are included in the following sections.

Food Service

- 31.2 percent of districts (172 out of 551) contract out for food service.
- Twelve districts began contracting out the service.
- New food service contracts are expected to save districts \$929,379 in the first year.

Food service continues to be the most frequently contracted service, with 172 districts using private contractors. Twelve new districts contracted out food service this year.

Graphic 2: Districts Contracting Food Service



Note: The number of districts that responded each year varied.

The number of districts contracting out for food service was stable for the 2007 to 2009 surveys. This year's survey found that this trend was broken as 4.9 percent more districts contracted out for this service.

The new contracts for food services are expected to save Michigan school districts \$929,379 this year. Savings range from \$4,280 at the Chassell Township School District to \$563,403 at Rochester Community Schools, and are listed in graphic 3.

The Chassell Township Schools' cook and an assistant retired and came back through Good Marks for Schools, and the district expects to save \$4,280 from the move.

Meridian Public Schools did not provide enough information to obtain a savings number. The district submitted its contractor's bid, however, which guarantees that the district will operate its food services with a \$49,000 annual surplus.

Swartz Creek Community Schools had one individual overseeing both the food and transportation services. After the employee retired the district rehired her through K-12 Kitchens to continue as the food service manager. The district shifted the transportation oversight duties to a different employee.

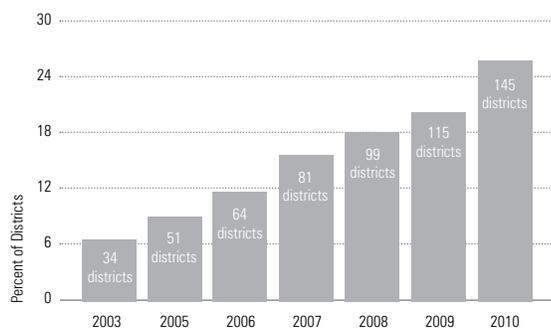
Graphic 3

Districts new to food service contracting	Savings
Rochester Community Schools	\$563,403
Mona Shores Public Schools	\$200,000
Inkster Public	\$96,000
Kearsley Community Schools	\$28,389
Durand Area Schools	\$27,802
Crawford Ausable Schools	\$9,505
Chassell Township Schools	\$4,280
Davison Community Schools	Insufficient documentation
Bentley Community Schools	Insufficient documentation
Flat Rock Community Schools	Insufficient documentation
Meridian Public Schools	Insufficient documentation
Swartz Creek Community Schools	Insufficient documentation

Custodial Service

- 26.3 percent of districts (145 out of 551) contract out for custodial services.
- 32 districts began contracting out the service.
- Contracting out custodial services is expected to yield districts \$14.0 million in savings in the first year.

Contracting out for custodial services grew substantially this year. From 2009 the number of those districts contracting out their custodial services increased 5.4 percentage points.

Graphic 4: Districts Contracting Custodial Service

Since 2003 custodial service contracting in Michigan public schools grew 300 percent, from 6.6 percent of all districts contracting to 26.3 percent.

Savings from the districts contracting out custodial services range from \$11,000 to \$3.5 million or \$5.35 to \$318.37 per pupil.

Baldwin Community Schools had gone eight years without a custodial manager. This year the district decided to hire a custodial and maintenance manager with

At Your Service. District officials report that they plan to continue to contract custodial services as custodians retire or otherwise leave the district.

Utica Community Schools contracted out its custodial service to GCA Services and expects to save \$4 million through using both contractors and the district's current employees. The district solicited bids to provide services to give it an expected savings figure. It selected a vendor and a savings target, and worked with its employees providing the service to come up with commensurate savings. The district accepted some concessions, but also contracted out a portion of its custodial services, which is expected to save the district \$1.6 million in its first year.

By contracting with Hi-Tec Building Services Inc., Les Cheneaux Community Schools expects to save \$62,230 in its first year. After accounting for a couple of continued salary expenses and increased unemployment insurance expenses, the district expects to save \$97,337 annually for the remainder of the contract, a savings of \$302 per pupil.

In addition to its 2010-2011 cost savings, Novi Community Schools provided a 30-month projected cost savings of \$3,622,676. For the 6,000-pupil school district, this amounts to a \$233 per student annual savings, though its 2010-2011 school year savings are only expected to be \$1.1 million.

Wayland Union Schools expects to incur severance and retirement costs when transitioning to its contract with CSM. After those first-year costs, the district expects to save \$400,000 annually for the remainder of the contract.

Pennfield Schools started leasing workers with PCMI, which saved \$2,400 from the start of the contract on March 1, 2010. The district estimated savings for the entire 2010-2011 school year will be \$11,000, which works out to an annual savings of \$5 dollars per pupil.

Tecumseh Public Schools expects to save \$380,000 by contracting out custodial services. The superintendent reported that the district receives superior service from the private contractor for nearly half the price.

Graphic 5

Districts new to custodial contracting	Savings
Walled Lake Consolidated Schools	\$3,535,132
Utica Community Schools	\$1,581,120
Royal Oak Public Schools	\$1,295,753
Novi Community Schools	\$1,118,915
Oak Park School District	\$1,063,379
Oxford Area Community Schools	\$814,635
Mt. Pleasant Public Schools	\$795,448
Mona Shores Public Schools	\$719,817
Wayland Union Schools	\$400,000
River Rouge School District	\$389,890
Tecumseh Public Schools	\$380,000
Lakewood Public Schools	\$316,678
New Haven Community Schools	\$300,000
Gladwin Community School	\$232,291
Homer Community Schools	\$151,629
Adrian Public Schools	\$147,760
Holton Community Schools	\$133,531
Hart Public Schools	\$115,000
Eau Claire Public Schools	\$113,214
Buena Vista Schools	\$70,000
East Grand Rapids Public School	\$65,000
Les Cheneaux Community Schools	\$62,230
Mancelona Public Schools	\$51,447
Freeland Community School District	\$44,662
Three River Community Schools	\$39,793
Pickford Public Schools	\$34,286
East Jackson Community Schools	\$31,672
Pennfield Schools	\$11,000
Baldwin Community Schools	Insufficient documentation
Bentley Community Schools	Insufficient documentation
Elkton-Pigeon-Bay Port Laker Schools	Insufficient documentation
Lamphere Schools	Insufficient documentation

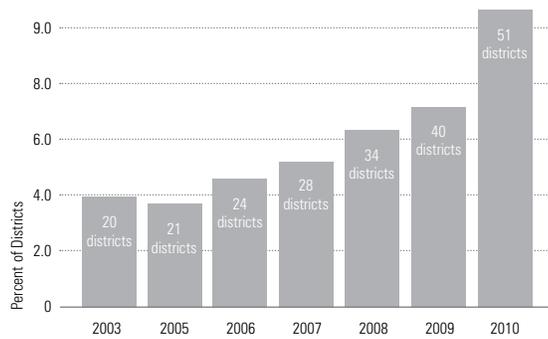
Transportation Service

- 9.3 percent of districts (51 out of 551) contract out for transportation services.
- Thirteen districts began contracting out the services.
- Contracting out for transportation services is expected to yield \$1.8 million in savings in the first year.

While transportation is the least contracted-out service, privatization is growing considerably. Since 2003 transportation service contracting more than doubled (growing 139 percent), though less than 10 percent of districts contract out for this service.

With 13 districts new to contracting out, transportation experienced 27.5 percent growth over last year's survey. The savings estimates for districts new to transportation privatization range from \$10,000 to \$810,436 and are listed in Graphic 7.

Graphic 6: Districts Contracting Transportation Service



The largest gain in transportation contracting came from districts in Houghton County. Five of these Upper Peninsula districts began using contractors to provide busing services to the districts' students. The districts, Portage Township Schools, Tamarack City Schools, Calumet/Laurium/Keweenaw Public Schools, Adams Township Schools and Chassell Township Schools reported a combined savings figure of \$334,136, approximately \$87 per pupil.

Chassell Township Schools did not provide documents on cost comparison between in-house and contractor costs. However, it reported that its contractor will purchase the district's aging bus fleet, which was expected to require significant updates. The district will lease the buses for its use. Not all districts choose to sell their fleets to contractors, though, and opt only for transportation management or simply leasing employees.

On June 28 the Harbor Springs Public Schools board of education voted unanimously to approve a third-party contract with METS for its transportation supervisor. The district did not provide savings documentation.

Graphic 7

Districts new to transportation contracting	Savings
Oak Park School District	\$810,436
Garden City Public Schools	\$375,000
Houghton-Portage Townships Schools	\$156,403
Adams Township School District	\$141,854
Lakeview Community Schools	\$136,000
Holton Public Schools	\$104,617
East Jackson Community Schools	\$29,125
Calumet/Laurium/Keweenaw Public Schools	\$25,879
Dollar Bay-Tamarack City Schools	\$10,000
Chassell Township Schools	Insufficient documentation
Bentley Community Schools	Insufficient documentation
Au Gres-Sims School District	Insufficient documentation
Harbor Springs Public Schools	Insufficient documentation

Districts That Brought Services Back In-House

- Eight districts brought services back under local governmental provision
- Four were food service contracts, two were custodial service contracts and two were transportation service contracts.
- Cost savings from bringing the services in-house is estimated at \$473,872.

While contracting out has tended to save districts money, some districts find that changing service provision back in-house or sharing services with other districts may be less expensive. This year, eight districts ended contracting arrangements and either brought services back in-house or began sharing its support services with other districts or through an intermediate school district.

East Grand Rapids Public Schools had a private company providing its food service. The district decided to end the contract and entered into a food service sharing agreement with Grand Rapids Public Schools. The difference between the previous food service director's management fee and the district's share of the GRPS director is \$140,000.

Comstock Park Public Schools had contracted out to clean two of the district's buildings. Officials saw a drop in enrollment which allowed them to move their kindergarten and preschool children to a different building. With fewer buildings to clean, they were able to provide the services with existing staff. Officials expect this to save the district \$44,000.

After several years of contracting out its food service to a private company, North Branch Area Schools brought its food service manager back in-house. The district expects to save money by dropping the company's management fee and hiring a less expensive food service director, but final figures were not available.

Oscoda Area Schools decided to bring its food service back in-house in February. Believing that the contractor's management fees did not justify the expense, the district began sharing a food service director with Tawas Area Schools. District managers estimate that this will save the district \$115,799 for its first full year.

Pinckney Community Schools ended its transportation services contract and began busing its students through agreements with the Livingston Educational Service Agency. The superintendent said this allows him to maintain local autonomy and save money while being able to maintain flexibility and collaborate with other school districts. The district expects to save \$174,073.

Armada Area Schools had contracted out the transportation director to a private company. The district decided to end the contract with the private company and add the positions responsibilities to a bus dispatcher's duties.

Graphic 8

Districts that brought services back in-house	Service	Savings
Pinckney Community Schools	Transportation	\$174,073
East Grand Rapids Public Schools	Food	\$140,000
Oscoda Area Schools	Food	\$115,799
Comstock Park Public Schools	Custodial	\$44,000
North Branch Area Schools	Food	Insufficient documentation
Baraga Area Schools	Custodial	Insufficient documentation
Stockbridge Community Schools	Food	Insufficient documentation
Armada Area Schools	Transportation	Insufficient documentation

Other Services Contracted

- 235 districts (42.6 percent) contract out for coaching services.
- 424 districts (77.0 percent) contract out for substitute teaching services.
- 248 districts (45.0 percent) contract out for snow removal.
- 176 districts (31.9 percent) contract out for lawn care.
- 59 districts (10.7 percent) contract out for maintenance.

Districts contract out beyond food, custodial, and transportation. Every service above saw an increase from last year. This year's survey also included a new question on maintenance services, though these services are often provided when districts contract out for custodial services.

Many of these services are provided by an employee leasing company that manages the employees and handles the payroll. Contracting out for these positions can save significant money because districts are not required to contribute to the state school employee retirement fund.

Aside from these services, school districts will also often contract out for security, special education, administrative, secretarial, technology and mechanical services among others.

Districts often provide these services in conjunction with others. For instance, district coaches and substitute teacher services may be provided within its teacher contracts and lawn care may be a part of custodial services. Data above represent district-reported private provision of services.

Satisfaction With Contracting

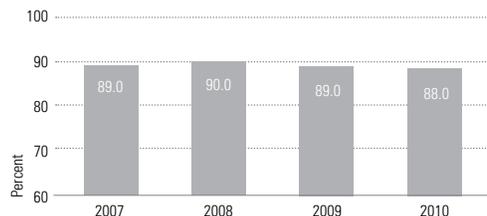
- 238 districts (88.5 percent) were satisfied with their private contractors.
- Twelve districts (4.5 percent) were unsure.
- Seventeen districts (6.3 percent) did not answer.
- Two districts (0.7 percent) were not satisfied with their private contractors.

A majority of Michigan's school districts are satisfied with its contractors. Districts that are unsatisfied with their contracts often end the contract and bring services in-house or re-bid the service and hire a different company. Unsatisfied with the custodial services provided by their previous contractor, Southfield Public Schools re-bid its contract and are now satisfied with its custodial service provider.

Many of the districts new to contracting reported they were unsure or refused to answer whether they were satisfied with the service or not. These districts didn't feel confident enough to give a solid answer given the short duration the service had been contracted out.

Over the years of performing this survey districts dissatisfied with their contracted service have been rare. Districts satisfied with their private contractors have been between 88 percent and 90 percent over the last four surveys.

Graphic 9: Satisfaction from Outsourcing



Note: The number of districts that responded each year varied.

While a district's satisfaction is often due to financial considerations, service quality as measured by satisfaction measures can be used as an important metric when considering best practices in school management.

Shared Services

Gov. Jennifer Granholm has encouraged school districts to share services with each other, and Rep. Tim Melton has introduced House Bill 6488 that would create a commission that can mandate service consolidation. This year's survey checked on whether districts have been sharing services without additional prompting from state government. The survey found that Michigan school districts share a wide range of services.

Food services are a commonly shared service, with 52 districts participating in food purchasing blocks or by sharing a food service manager. Okemos Public Schools, for instance, shares a food service manager with Springport Public Schools.

Portions of transportation services are also frequently shared, with 124 districts reporting that they share facilities and services. Districts often share their bus garages with other districts and split repair costs. Others work with each other and their ISDs to transport athletes, take students to special events, and provide special education. Bloomington Public Schools, for instance, contracts out for bus maintenance with Gobles Public Schools.

Shared technology services are also commonplace, with 85 school districts sharing network maintenance, software purchasing, infrastructure, or technology supervisors.

Many school districts also work with each other in a number of business services, including sharing a business manager or chief financial officer, accounting services, principals, superintendents, labor agreement negotiators, secretaries and payroll services. Districts also frequently join together to get discounts on purchases and to lower transaction costs. There were 146 districts that reported sharing some of their business services.

Other services shared with districts are special education services, psychologists and counselors, maintenance staff, among several others. Sharing services allows smaller districts to tap specialists that it might not be able to employ by itself. The Kaleva Norman Dickson School District and Bear Lake Public Schools share a part-time speech aid and a special education aid.

Districts have largely shared services when the opportunity arises. However, few districts reported that they use another district or an ISD to provide for all technology, business, food or transportation services.

Revisions in Results

Lawrence Public Schools has been contracting out two of its seven custodial positions since 2009. This meets the definition for having contracted out services and figures for 2009 have been revised to reflect contracting out this service.

Wayland Union Schools has been contracting out for a food service manager. Records for 2008 forward have been updated.

Ann Arbor Public Schools has not been contracting out regular custodial services. This district uses a private contractor for custodial substitutes, which does not meet the definition of a regular custodial service.

Muskegon Heights Public Schools contracted out its custodial management to an employee leasing firm prior to the 2009 survey.

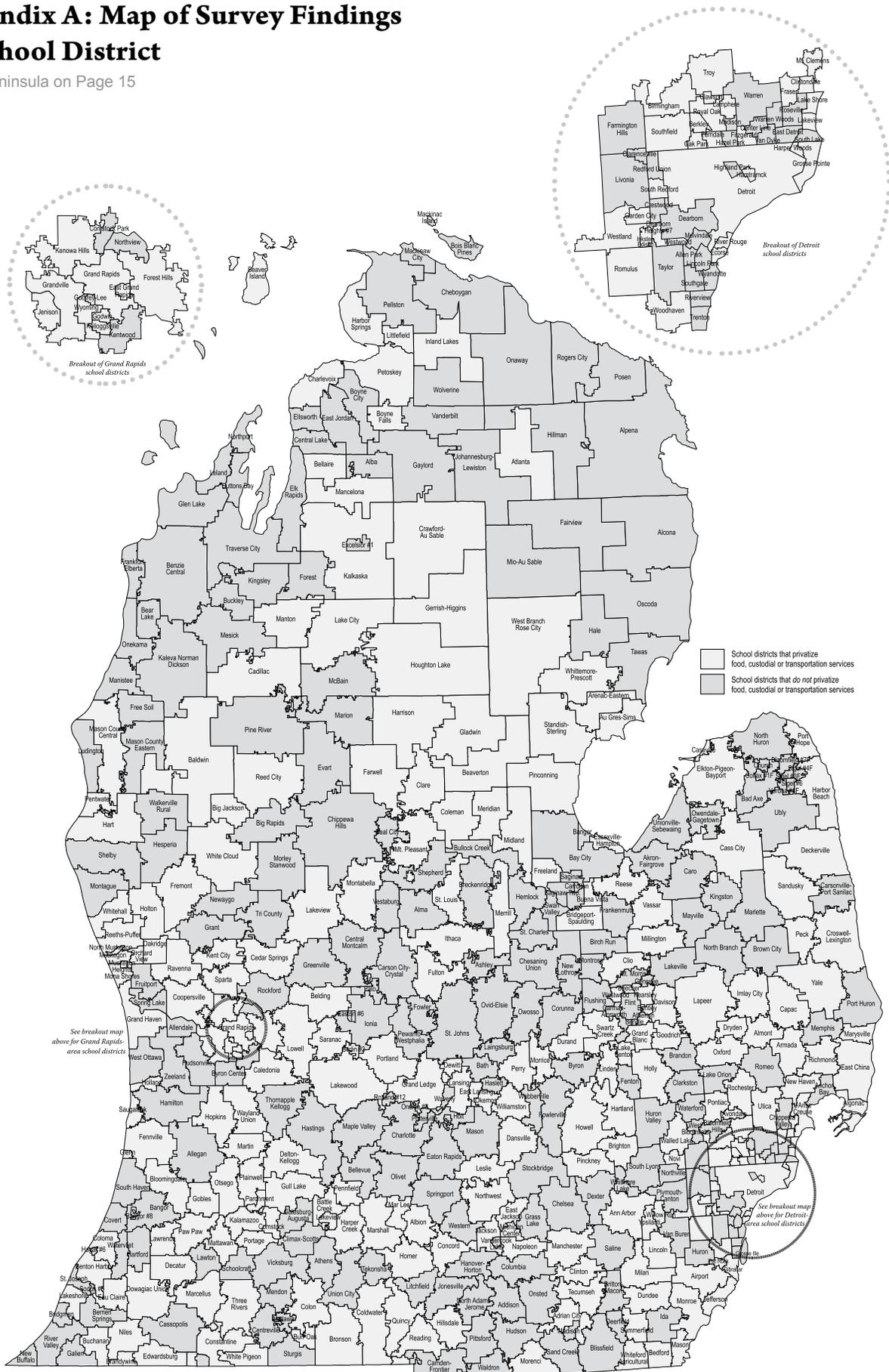
Reading Community Schools has been contracting out its transportation supervisor, a cook and a custodian with an employee leasing firm since 2007.

Algonac Public Schools contracted out two custodial service providers through an employee leasing group.

Concord Community Schools has been contracting out for its custodial and transportation service manager since 2005.

Appendix A: Map of Survey Findings by School District

Upper Peninsula on Page 15



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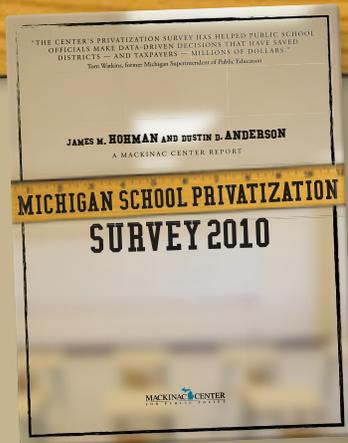
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MICHIGAN SCHOOL PRIVATIZATION SURVEY 2010

Praise from Tom Watkins

*Business and Educational Consultant in the United States and China
Michigan State Superintendent of Schools from 2001-2005*

“Change is avoided, until it can be avoided no longer. We have been approaching that day for some time in Michigan and our schools.

The Mackinac Center has been consistent in its philosophy of less government and maximizing our public resources for the public good.

The Center’s privatization survey has helped public school officials make data-driven decisions that have saved districts — and taxpayers — millions of dollars. Research by Center scholars has helped advance privatization from a seldom-used practice to an effective tool that has now been accepted by nearly half of Michigan’s school districts.

Their work has helped redirect limited educational resources to the classroom. This is a benefit to our children and our collective future. This is good news for our kids and the taxpayers!”

About the Authors



James M. Hohman is a Fiscal Policy Analyst with the Mackinac Center’s fiscal policy initiative. He holds a degree in economics from Northwood University in Midland, Mich.



Dustin Anderson was a 2010 research intern at the Mackinac Center for Public Policy.



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140 West Main Street P.O. Box 568 Midland, Michigan 48640
989-631-0900 Fax 989-631-0964 www.mackinac.org mcpp@mackinac.org